

B U S I N E S S S I T U A T I O N

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ECONOMIC GROWTH decelerated in the second quarter of 1998, according to the "advance" estimates of the national income and product accounts (NIPA's), as real gross domestic product (GDP) increased 1.4 percent after increasing 5.5 percent (revised) in the first quarter (chart 1 and table 1).¹ Real final sales of domestic product—GDP less change in business inventories—decelerated much less, as a 3.9-percent increase followed a 4.3-percent increase.

1. Quarterly estimates in the NIPA's are expressed at seasonally adjusted annual rates unless otherwise specified. Quarter-to-quarter dollar changes are differences between the published estimates. Quarter-to-quarter percent changes are annualized and are calculated from unrounded data. Real estimates are expressed in chained (1992) dollars, and price indexes are chain-type indexes.

NIPA estimates beginning with the first quarter of 1995 have been revised; see "Annual Revision of the National Income and Product Accounts: Annual Estimates, 1995–97, and Quarterly Estimates, 1995:1–1998:1" in this issue.

The price index for gross domestic purchases increased 0.4 percent after decreasing 0.2 percent.

The deceleration in real GDP primarily reflected a sharp downturn in inventory investment: Inventory accumulation slowed to \$44.7 billion in the second quarter from \$91.4 billion in the first; in the fourth quarter of 1997, accumulation had been \$66.5 billion. Also contributing to the deceleration was a slowdown in producers' durable equipment (PDE), which was mainly accounted for by transportation equipment and information processing equipment.

The largest contributors to the second-quarter increase in real GDP were personal consumption

Table 1.—Real Gross Domestic Product, Real Gross Domestic Purchases, and Real Final Sales to Domestic Purchasers

[Seasonally adjusted at annual rates]

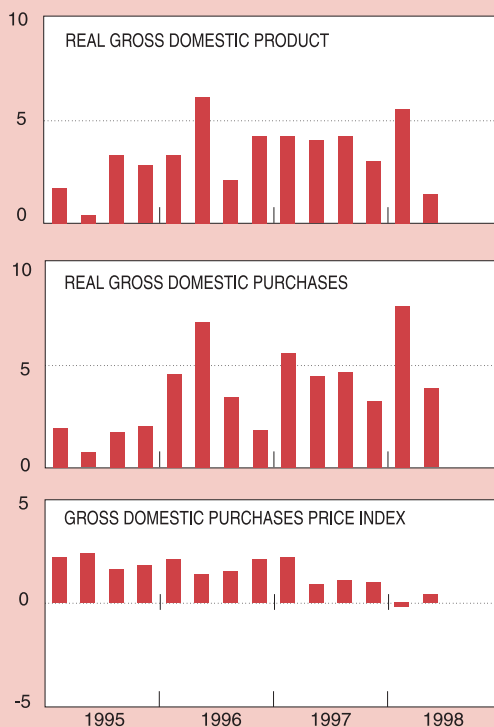
	Billions of chained (1992) dollars					Percent change from preceding quarter			
	Level		Change from preceding quarter			1997		1998	
	1998		1997			1997		1998	
	II	III	IV	I	II	III	IV	I	II
Gross domestic product	7,491.0	74.7	53.4	100.1	26.3	4.2	3.0	5.5	1.4
Less: Exports of goods and services	971.3	24.5	10.7	-6.9	-20.6	10.6	4.4	-2.8	-8.0
Plus: Imports of goods and services	1,224.2	35.3	17.3	42.6	33.8	13.5	6.3	15.7	.9
Equals: Gross domestic purchases	7,717.3	83.7	59.0	142.8	72.4	4.6	3.2	7.8	3.8
Personal consumption expenditures	5,126.5	74.3	34.0	74.1	71.4	6.2	2.8	6.1	5.8
Durable goods	727.4	25.8	5.2	25.5	17.1	16.8	3.1	15.8	10.0
Nondurable goods	1,543.1	18.6	-1.4	26.9	21.9	5.1	-4	7.4	5.9
Services	2,862.9	31.8	29.4	24.5	33.6	4.7	4.3	3.5	4.8
Gross private domestic fixed investment	1,260.0	32.3	10.2	55.4	35.1	12.0	3.6	20.4	11.9
Nonresidential fixed investment	957.5	34.0	4.0	45.7	25.6	17.0	1.8	22.2	11.4
Structures	200.8	5.9	.5	-2.6	-2.3	12.4	.9	-4.9	-4.5
Producers' durable equipment	769.7	28.8	3.8	52.4	30.9	18.8	2.2	34.3	17.8
Residential investment	307.9	-2	5.6	10.6	9.4	-4	8.2	15.6	13.2
Change in business inventories	44.7	-28.0	15.5	24.9	-46.7	.....	.....	.....	.....
Nonfarm	36.6	-28.1	18.7	23.2	-49.3	.....	.....	.....	.....
Farm	8.4	.5	-3.6	1.6	3.1	.....	.....	.....	.....
Government consumption expenditures and gross investment	1,294.8	4.5	.3	-6.2	11.8	1.4	.1	-1.9	3.7
Federal	453.8	-1.5	-2.4	-10.4	7.7	-1.2	-2.1	-8.8	7.0
National defense	300.0	-1.5	-1.5	-15.4	6.7	-1.8	-2.0	-18.5	9.4
Nondefense	153.0	0	-9	4.6	1.1	-1	-2.3	13.1	2.8
State and local	841.2	5.9	2.8	4.2	4.1	2.9	1.3	2.1	2.0
Addenda:									
Final sales to domestic purchasers	7,668.8	109.7	44.1	120.1	116.6	6.2	2.4	6.6	6.3
Final sales of domestic product	7,442.5	100.8	38.5	77.7	70.0	5.8	2.1	4.3	3.9

NOTE.—Chained (1992) dollar series are calculated as the product of the chain-type quantity index and the 1992 current-dollar value of the corresponding series, divided by 100. Because the formula for the chain-type quantity indexes uses weights of more than one period, the corresponding chained-dollar estimates usually are not additive. Chained (1992) dollar levels and residuals, which measure the extent of nonadditivity in each table, are in NIPA tables 1.2, 1.4, and 1.6. Percent changes are calculated from unrounded data. Percent changes in major aggregates are in NIPA table 8.1.

CHART 1

Selected Measures: Change From Preceding Quarter

Percent



Note.—Percent change at annual rate from preceding quarter; based on seasonally adjusted estimates.

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expenditures (PCE) and PDE. PCE more than accounted for the growth, increasing 5.8 percent and contributing 3.9 percentage points to overall growth; purchases of durable goods, nondurable goods, and services all rose.² PDE increased 17.8 percent and contributed 1.3 percentage points; the increase was largely accounted for by information processing equipment (which includes computers and peripheral equipment). Also con-

tributing to the second-quarter increase in real GDP were government spending and residential investment. Government spending increased 3.7 percent, largely reflecting spending by the Federal Government for national defense, and residential investment increased 13.2 percent, reflecting increases in single-family structures and in "other" residential investment (which includes brokers' commissions).

These positive contributions to GDP growth were largely offset by negative contributions from

2. NIPA table 8.2 shows the contributions of the major components of GDP to the quarter-to-quarter percent change in real GDP.

Second-Quarter 1998 Advance GDP Estimate: Source Data and Assumptions

The "advance" GDP estimate for the second quarter is based on preliminary and incomplete source data; as more and better data become available, the estimate will be revised. The advance estimate is based on the following major source data. (The number of months for which data were available is shown in parentheses.)

Personal consumption expenditures: Sales of retail stores (3) and unit auto and truck sales (3);

Nonresidential fixed investment: Unit auto and truck sales (3), construction put in place (2), manufacturers' shipments of machinery and equipment other than aircraft (3), aircraft shipments (2), and exports and imports of machinery and equipment (2);

Residential investment: Construction put in place (2) and single-family housing starts (3);

Change in business inventories: Manufacturing and trade inventories (2) and unit auto and truck inventories (3);

Net exports of goods and services: Exports and imports of goods and services (2);

Government consumption expenditures and gross investment: Department of Defense outlays (3), other Federal outlays (3), State and local construction put in place (2), and State and local employment (3);

GDP prices: Consumer Price Index (3), Producer Price Index (3), U.S. Import and Export Price Indexes (3), and values and quantities of petroleum imports (2).

BEA made assumptions for source data that were not available. Table A shows the assumptions for key series; a more comprehensive listing of assumptions is available on the Department of Commerce's Economic Bulletin Board or from BEA.

Table A.—Summary of Major Data Assumptions for Advance Estimates, 1998:II

[Billions of dollars, seasonally adjusted at annual rates]

	1998					
	January	February	March	April	May	June ¹
Fixed investment:						
Nonresidential structures:						
Buildings, utilities, and farm:						
Value of new nonresidential construction put in place	167.6	167.0	165.4	168.1	165.3	167.8
Producers' durable equipment:						
Manufacturers' shipments of complete civilian aircraft	59.2	50.3	34.8	38.7	43.8	43.6
Residential structures:						
Value of new residential construction put in place:						
1-unit structures	172.1	175.2	178.8	181.3	180.5	181.8
2-or-more-unit structures	25.1	25.4	24.8	24.9	23.2	24.0
Change in business inventories, nonfarm:						
Change in inventories for manufacturing and trade (except nonmerchant wholesalers) for industries other than motor vehicles and equipment in trade	98.3	86.1	47.5	36.6	17.7	54.3
Net exports: ²						
Exports of goods:						
U.S. exports of goods, balance-of-payments basis	694.8	676.2	686.6	664.0	652.3	655.7
Excluding nonmonetary gold	687.6	672.4	681.7	660.5	647.9	650.6
Imports of goods:						
U.S. imports of goods, balance-of-payments basis	899.7	893.6	932.7	920.0	925.9	922.4
Excluding nonmonetary gold	892.0	889.2	924.8	914.8	920.2	917.1
Net exports of goods (exports less imports)	-204.9	-217.4	-246.1	-256.0	-273.8	-266.7
Excluding nonmonetary gold	-204.4	-216.8	-243.1	-254.3	-272.3	-266.5
Government consumption expenditures and gross investment:						
State and local:						
Structures:						
Value of new construction put in place	132.7	132.2	130.9	131.9	126.9	133.7

1. Assumed.

2. Nonmonetary gold is included in balance-of-payments-basis exports and imports but is not used directly in the estimation of NIPA exports and imports.

inventory investment and from imports and exports of goods and services. The stock of inventories increased only about half as much as in the first quarter, imports (which are subtracted in the calculation of GDP) increased 11.9 percent, and exports decreased 8.0 percent.

A strike at a motor vehicle manufacturer, which began June 5 and continued through the end of the quarter, was a factor in the small second-quarter growth. A quantitative estimate of its impact would require an estimate of how much motor vehicle production was reduced by the strike and how the strike affected production of other businesses, such as those providing raw materials for the motor vehicle industry. Production schedules published before the strike indicate that the production of automobiles and light trucks was reduced about 190,000 units. If most other businesses did not alter production because of the strike and if motor vehicle manufacturers would otherwise have met their production schedules, then the strike reduced second-quarter growth by about one-half percentage point. Among the components of GDP, this reduction mainly affected inventory investment, exports, and imports. The strike does not appear to have had an effect on final sales to domestic purchasers.

Motor vehicles.—Real motor vehicle output decreased 14.5 percent in the second quarter after decreasing 8.6 percent in the first (table 2). Based

on the lost production noted above, the strike accounted for about four-fifths of the second-quarter decrease.³ Final sales of motor vehicles to domestic purchasers increased 21.8 percent after increasing 10.8 percent. Inventory investment decreased substantially more than in the first quarter.

Autos accounted for most of the decrease in output in the first and second quarters. According to data on units, domestic auto production decreased to 5.1 million units (seasonally adjusted annual rate) in the second quarter from 5.6 million in the first and 5.9 million in the fourth quarter of 1997.

Consumer purchases of motor vehicles increased more than in the first quarter. Factors frequently considered in analyses of consumer spending were mixed in the second quarter. Growth of real disposable personal income slowed to 2.9 percent from 4.0 percent, but the Index of Consumer Sentiment (prepared by the University of Michigan Survey Research Center) remained close to its first-quarter level, the highest in 45 years, and the unemployment rate decreased from 4.7 percent to 4.4 percent. Two factors specific to motor vehicle purchases were favorable: Manufacturers offered more attractive

3. Because motor vehicle output covers the value of complete vehicles, the estimate of the impact of the strike on motor vehicle output does not require an estimate of the strike's impact on suppliers.

Table 2.—Motor Vehicle Output, Sales, and Inventories

[Seasonally adjusted at annual rates]

	Billions of chained (1992) dollars					Percent change from preceding quarter			
	Level		Change from preceding quarter						
	1998		1997		1998	1997		1998	
	II	III	IV	I	II	III	IV	I	II
Output	258.3	15.5	9.6	-6.2	-10.2	27.2	15.2	-8.6	-14.5
Autos	106.8	6.9	-7	-5.7	-9.8	25.7	-2.2	-17.5	-29.5
Trucks	151.0	8.6	10.2	-4	-5	28.4	31.9	-1.0	-1.5
Less: Exports	24.6	.5	.8	-1	-2.4	7.5	13.1	-2.3	-30.4
Autos	14.3	-8	0	.1	-1.4	-17.0	-.3	.6	-30.3
Trucks	10.4	1.2	.8	-2	-9	63.4	35.2	-6.2	-30.6
Plus: Imports	83.3	1.3	-3.3	6.4	-8	6.4	-15.5	37.5	-3.5
Autos	69.4	.3	-2.2	6.1	-5	1.4	-12.8	44.7	-2.8
Trucks	13.9	1.0	-1.1	.3	-3	32.7	-26.5	7.5	-7.1
Equals: Gross domestic purchases	317.0	16.2	5.5	.5	-8.8	23.2	7.0	.6	-10.3
Autos	161.9	7.7	-2.8	.4	-8.9	20.2	-6.5	1.0	-19.2
Trucks	154.7	8.5	8.2	.1	.1	26.8	24.6	.1	.4
Less: Change in business inventories	-22.6	-1.2	9.5	-7.7	-25.2	.....	.....	.....	.....
Autos	-12.2	.5	3.7	-4.3	-12.1	.....	.....	.....	.....
Trucks	-10.2	-1.5	5.5	-3.4	-12.7	.....	.....	.....	.....
Equals: Final sales to domestic purchasers	339.4	17.6	-4.2	8.2	16.3	25.4	-5.1	10.8	21.8
Autos	173.8	7.3	-6.4	4.6	2.9	19.0	-14.2	11.5	7.0
Trucks	165.3	10.2	2.3	3.5	13.4	33.6	6.4	10.0	40.2
Addenda: Personal consumption expenditures	197.9	11.9	-1.7	3.6	8.0	29.9	-3.5	7.9	17.8
Producers' durable equipment	132.6	4.2	-6	5.4	6.7	15.4	-1.9	19.1	23.1
Gross government investment	10.4	1.3	-1.9	-7	1.8	65.6	-53.5	-24.4	114.0

NOTE.—See note to table 1 for an explanation of chained (1992) dollars. Truck output includes new trucks only; auto output includes new cars and used cars. Chained (1992) dollar levels for

motor vehicle output, auto and truck output, and residuals, which measure the extent of nonadditivity in each table, are in NIPA tables 1.4, 8.5, and 8.7.

sales-incentive programs than in the first quarter, and the average interest rate on new-car loans at commercial banks decreased from 8.9 percent to 8.7 percent.

Business purchases increased slightly more than in the first quarter, and government purchases turned up. Imports decreased after increasing, and exports decreased substantially after little change.

Motor vehicle inventory investment decreased substantially more than in the first quarter. The second-quarter decrease reflected a sharp pickup in the liquidation of auto inventories and a swing from accumulation to liquidation in truck inventories; these liquidations, particularly at the retail level, reflected the strike. For new domestic autos, the inventory-sales ratio calculated from units data decreased from 2.4 at the end of the first quarter to 1.9 at the end of the second, its lowest level since the third quarter of 1986; the traditional industry target is 2.4.

Prices

The price index for gross domestic purchases, which measures the prices paid for goods and services purchased by U.S. residents, increased 0.4 percent in the second quarter after decreasing 0.2 percent in the first (table 3). Energy prices decreased much less than in the first quarter, and

food prices increased slightly more. The price index for gross domestic purchases less food and energy increased 0.7 percent, the same as in the first quarter (chart 2).

PCE prices increased 1.0 percent after no change in the first quarter. PCE energy prices decreased 7.5 percent after decreasing 20.2 percent; prices of gasoline and oil decreased less than in the first quarter, prices of fuel oil and coal decreased slightly less than in the first quarter, and prices of electricity and gas increased slightly after decreasing. PCE food prices increased 1.3 percent after increasing 1.1 percent; prices of fresh fruits and vegetables accelerated, and prices of nonalcoholic beverages decreased less than in the first quarter. Prices of PCE less food and energy increased 1.4 percent after increasing 1.1 percent, partly reflecting an upturn in the prices of clothing and shoes.

Prices of nonresidential fixed investment decreased 3.3 percent after decreasing 3.0 percent. Prices of structures increased 2.6 percent, about the same as in the first quarter. PDE prices decreased 5.3 percent after decreasing 5.0 percent; prices of information processing and related equipment decreased a little more than in the first quarter. Prices of private residential investment increased 0.8 percent after no change.

Prices of government consumption expenditures and gross investment increased 0.6 percent after increasing 1.1 percent. Prices paid by the Federal Government decreased 0.1 percent after increasing 2.7 percent; nondefense prices turned down, and national defense prices slowed. Prices

Table 3.—Price Indexes

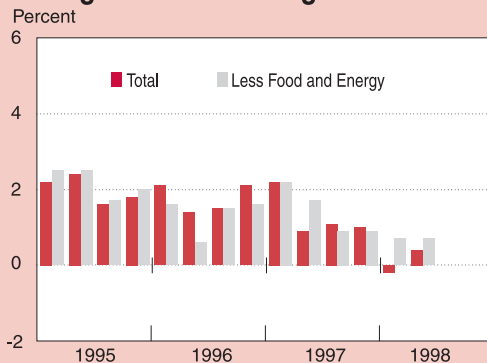
[Percent change at annual rates; based on seasonally adjusted index numbers (1992=100)]

	1997		1998	
	III	IV	I	II
Gross domestic product	1.2	1.1	0.9	0.8
Less: Exports of goods and services	-1.6	-1.6	-3.4	-1.9
Plus: Imports of goods and services	-2.1	-2.3	-10.4	-4.5
Equals: Gross domestic purchases	1.1	1.0	-2	.4
Less: Change in business inventories .....	.....	.....	.....	.....
Equals: Final sales to domestic purchasers	1.1	1.0	-1	.5
Personal consumption expenditures	1.3	1.1	0	1.0
Food	3.1	1.2	1.1	1.3
Energy	2.6	2.3	-20.2	-7.5
Personal consumption expenditures less food and energy	1.0	1.0	1.1	1.4
Private nonresidential fixed investment	-1.0	-1.6	-3.0	-3.3
Structures	4.3	3.3	2.7	2.6
Producers' durable equipment	-2.9	-3.3	-5.0	-5.3
Private residential investment	4.0	2.4	0	.8
Government consumption expenditures and gross investment .....	.8	2.2	1.1	.6
Federal	-2	1.4	2.7	-1
National defense	-4	1.2	2.9	.1
Nondefense .....	.4	1.8	2.2	-4
State and local	1.4	2.7	.2	1.0
Addendum: Gross domestic purchases less food and energy .....	.9	1.0	.7	.7

NOTE.—Percent changes in major aggregates are in NIPA table 8.1. Index number levels are in tables 7.1, 7.2, and 7.4.

CHART 2

Gross Domestic Purchases Prices: Change From Preceding Quarter



Note.—Percent change at annual rate from preceding quarter; based on seasonally adjusted index numbers (1992=100).

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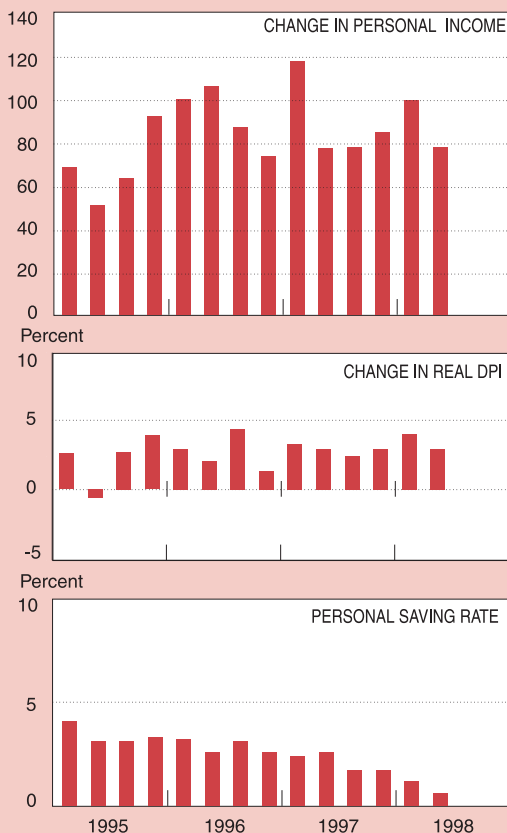
paid by State and local governments increased 1.0 percent after increasing 0.2 percent.

The GDP price index, which measures the prices paid for goods and services produced in the United States, increased 0.8 percent after increasing 0.9 percent. The GDP price index, unlike the price index for gross domestic purchases, includes the prices of exports and excludes the prices of imports. Export prices decreased 1.9 percent after decreasing 3.4 percent; prices of foods, feeds, and beverages and prices of industrial supplies and materials decreased less than in the first quarter, while prices of nonautomotive consumer goods decreased after little change. Import prices decreased 4.5 percent after decreasing 10.4 percent; prices of petroleum products, prices of industrial supplies and materials, and prices of foods, feeds, and beverages decreased less than in the first quarter.

CHART 3

Selected Personal Income and Saving Measures

Billions \$



Note—Changes are from preceding quarter; based on seasonally adjusted annual rates

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Personal income

Real disposable personal income (DPI) increased 2.9 percent in the second quarter after increasing 4.0 percent in the first (chart 3). Current-dollar DPI increased 3.9 percent after increasing 4.0 percent. The personal saving rate (saving as a percentage of current-dollar DPI) decreased to 0.6 percent from 1.2 percent, reflecting a larger increase in personal outlays than in DPI. (The saving rate for 1982:I–1998:I was revised to reflect a redefinition of personal dividend income and, thus, of personal income; see “Annual Revision of the National Income and Product Accounts,” page 29.)

Personal income increased \$77.5 billion in the second quarter after increasing \$99.0 billion in the first (table 4). Three-fourths of the deceleration was accounted for by a slowdown in wages and salaries; transfer payments and other labor income also contributed to the deceleration.

Table 4.—Personal Income and Its Disposition

[Billions of dollars; seasonally adjusted at annual rates]

	Level	Change from preceding quarter			
		1997		1998	
	II	III	IV	I	II
Wage and salary disbursements	4,117.1	60.0	74.4	72.0	55.2
Private industries	3,431.5	55.0	69.5	64.0	49.1
Goods-producing industries	1,022.7	14.0	24.3	15.3	3.7
Manufacturing	750.5	10.3	19.0	9.1	.1
Distributive industries	931.8	16.1	18.2	14.4	12.9
Service industries	1,477.0	24.9	27.0	34.3	32.5
Government	685.6	5.1	4.7	8.1	6.1
Other labor income	405.6	2.1	3.4	5.8	2.8
Proprietors' income with IVA and CCAAdj	571.1	6.6	1.5	6.2	6.9
Farm	26.4	-1.5	-4.9	-4.0	-1.0
Nonfarm	544.6	8.1	6.4	10.2	7.8
Rental income of persons with CCAAdj	161.5	.6	.2	-.5	3.2
Personal dividend income	262.1	.5	.9	.3	.5
Personal interest income	762.4	4.8	2.5	4.0	5.4
Transfer payments to persons	1,146.8	7.2	6.5	18.5	7.8
Less: Personal contributions for social insurance	345.0	4.5	5.4	7.3	4.1
Personal income	7,081.4	77.3	84.0	99.0	77.5
Less: Personal tax and nontax payments	1,087.2	23.2	26.5	41.3	20.4
Equals: Disposable personal income	5,994.2	53.9	57.6	57.7	57.1
Less: Personal outlays	5,958.9	107.3	57.9	82.8	94.9
Equals: Personal saving	35.3	-53.4	-3	-25.2	-37.7
Addenda: Special factors in personal income:					
In wages and salaries:					
Federal Government and Postal Service pay adjustments, including "buyouts"	4.0	-.1	0	3.5	.1
Strike in the motor vehicle industry	-6	0	0	0	-6
In transfer payments to persons:					
Social security retroactive payments	0	0	1.1	-1.1	0
Cost-of-living adjustments in Federal transfer programs	9.8	0	0	9.8	0
Earned Income Tax Credit payments	21.9	0	0	.7	0
In personal contributions for social insurance:					
Tax rate, base, and law changes	1.5	0	0	1.5	0
In personal tax and nontax payments:					
Recent tax law changes	-44.5	.3	0	-7.9	-.5

NOTE.—Most dollar levels are in NIPA table 2.1.
IVA Inventory valuation adjustment
CCAAdj Capital consumption adjustment

Wage and salary disbursements increased \$55.2 billion after increasing \$72.0 billion. The slowdown was primarily in goods-producing industries, mostly in manufacturing. Only a small part of the slowdown in manufacturing was accounted for by the motor vehicle strike; on the basis of the number of workers affected and the length of time they were out of work, it is estimated that the strike reduced wages and salaries by about \$0.6 billion (annual rate). Wages and salaries in the service industries, in the distributive industries, and in government increased only slightly less than in the first quarter. Overall, private industry employment and average hourly earnings increased less than in the first quarter, and average hours decreased after increasing.

Transfer payments increased \$7.8 billion after increasing \$18.5 billion; the first-quarter increase had been boosted by cost-of-living adjustments

to benefits under social security and other Federal retirement and income support programs. Other labor income increased \$2.8 billion after increasing \$5.8 billion.

Rental income of persons increased after decreasing. Personal interest income and proprietors' income increased slightly more than in the first quarter; farm proprietors' income decreased less than in the first quarter, and nonfarm proprietors' income increased less. Personal dividend income changed little in both quarters.

Personal contributions for social insurance, which is subtracted in the calculation of personal income, increased \$4.1 billion after increasing \$7.3 billion.

Personal tax and nontax payments increased \$20.4 billion after increasing \$41.3 billion. The large first-quarter increase partly reflected a step-up in estimated income tax payments and final settlements less refunds. 